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C O N F I D E N T I A L SECTION 01 OF 02 TAIPEI 002074

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SUBJECT: MAINLAND AFFAIRS COUNCIL BLAMES CHINA AND PUSHES
STAFFDEL FOR FTA

Classified By: ECONOMIC CHIEF HANSCOM SMITH FOR REASONS 1.4 B/D

11. (SBU) SUMMARY. In a recent meeting with U.S. Senate Budget Committee Staff Director Scott Gudes and Staff Economist Daniel Brandt, Mainland Affairs Council (MAC) Vice Chairman Tung Chen-yuan laid out the Chen administration's position on cross-Straits relations. China threatens Taiwan militarily and refuses to negotiate, Tung argued, and has halted productive discussions on tourism and direct flights. Taiwan, working from the basic principles of sovereignty, democracy, peace and parity, stands ready to improve the relationship. He claimed that DDP Presidential Candidate Frank Hsieh would be in a much better position to negotiate with China than the KMT's Ma Ying-jeou, since Hsieh has not agreed on the "one China, two interpretations" model. In response to a plea for the U.S. to negotiate a Free Trade Agreement with Taiwan, Staffdel members pointed out the difficulties of negotiating and ratifying any trade agreement in Washington.

Talks Stalled and No Mutual Trust

12. (SBU) Tung lamented that cross-Straits dialogue has stopped and pointed the finger at China. He noted that since 2004, Taiwan has offered to discuss 18 different agenda items with the PRC, including direct links. So far, he asserted, the PRC has only agreed to discuss one of these items (charter flights). Taiwan had high hopes for the negotiations to expand both direct cargo and passenger flights and to open Taiwan to PRC tourists. Currently, charter flights and emergency medical flights are also allowed on a case-by-case basis, but Taiwan hopes a regularized schedule can be negotiated. Tung maintained that China has suspended productive negotiations on both the tourism and charter flights issues and has given no indication on when they might resume. Taiwan is eager to welcome up to one thousand tourists per day from China, he said.

13. (SBU) Tung said many cross-Straits difficulties stem from a lack of trust, and that confidence-building measures are needed. Taiwan hopes to set up what he called a framework for peace and stability, develop economic exchanges, and promote democratic development on the Mainland to bring a long-term peaceful resolution between the two sides. He said the MAC is pursuing the general goals of reconciliation, cooperation, and peaceful resolution with China.

PRC-Taiwan: Military Threats but People-to-People Exchanges

14. (SBU) Tung pointed out that the PRC threatens Taiwan with about 1,000 missiles targeting the island. The PRC's military budget has increased by 17 percent over the last year, and over the past few years has acquired 16 attack submarines, long-range bombers, and mid-air refueling capabilities. The PRC continues to sabotage Taiwan's participation in international organizations, he asserted. Tung noted that although the Palestinian Authority has observer status in the WHO, Taiwan is excluded. On the positive side, since 2005 the PRC has not insisted that Taiwan accept the one-China principle as a condition for talks, and there are more people-to-people exchanges. There is a growing tourist exchange, with 300,000 PRC nationals visiting Taiwan over the last few years. Taiwan travelers made about four million visits to China and about one million Taiwan business persons currently reside in China. He reiterated that Taiwan would like to allow up to one thousand PRC tourists per day to enter Taiwan.

Taiwan - A Beacon of Democracy

15. (SBU) Tung stressed that Taiwan could provide the PRC with examples of how it can develop its own nascent democratic values. He argued that President Chen's family legal woes have drawn intense scrutiny by the Taiwan press, to the consternation of the PRC authorities, who have tried to limit public exposure to this news. Tung cited constitutional reform and public referenda as tools of

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Taiwan's vibrant democracy. Taiwan's example of a democratic open society is its leverage in dealing with the PRC, he argued. China was also not all of one opinion in dealing with Taiwan. Tung trotted out the old joke that while Beijing favors invasion, Shanghai favors negotiation . . . and Xiamen favors surrender.

A Plea for an FTA with the U.S.

16. (C) Turning to the U.S. - Taiwan trade relationship, Tung argued that the U.S. - Korea Free Trade Agreement (FTA) would have negative consequences for Taiwan exporters and urged the U.S. to negotiate an FTA with Taiwan. Staffdel members noted that the U.S. administration does not currently have trade promotion authority, and thus is in no position to negotiate any new FTAs. Furthermore, they noted that Senate ratification of the U.S. - Korea FTA is far from guaranteed. Tung asserted that lack of a U.S.-Taiwan FTA would lead to Taiwan's isolation, and claimed other economic heavyweights would be likely to follow the U.S. lead and not sign FTAs with Taiwan.

DPP better poised to negotiate with PRC

17. (C) Over the long term, Tung said that Taiwan's cross-strait policy is guided by four principles: sovereignty, democracy, peace and parity. Democracy is the bottom line and cannot be negotiated away. Parity, or equal footing, is something President Chen insists upon, although he added that Chen would be open to considering an eventual arrangement similar to the current European Union model. Tung said the Kuomintang's "one China, two interpretations" position is a non-starter since the PRC never accepted that version. If the KMT wins the 2008 elections, he noted, China will press for adoption of the "one China, two systems" concept currently applied to Hong Kong. The DPP, on the other hand, has never accepted the notion of one China, and therefore has a little more room to negotiate should it win

the elections. He said a DPP win in the next elections would offer new ground to negotiate a peaceful settlement and would guarantee Taiwan sovereignty.

Bio Note

18. (U) Tung Chen-yuan was a professor of Social Science at the National Chengchi University before assuming his current position. He received a Ph.D. in International Affairs from the John Hopkins SAIS program and his expertise is in Taiwan-China economic relations and Taiwan-US-China relations.

Comment

19. (C) In his meeting with the Staffdel, Vice Chairman Tung unsurprisingly gave Taiwan's boilerplate language on cross-Strait issues -- China has broken off negotiations, is threatening Taiwan militarily, and is actively trying to squeeze Taiwan's international space. Interestingly, he did not talk about China's economic importance to Taiwan. Instead, he chose to argue that Taiwan's leverage, in response to China's rising economic and political clout, is its free and open society. He seemed unable or unwilling to acknowledge, however, that Taiwan's democracy is played on the Mainland as messy and inefficient. Fistfights in the legislature and electoral gridlock obscure the achievements of Taiwan's young democracy and free press. The logic behind the ruling Democratic Progressive Party's oft-repeated claim that its presidential candidate, Frank Hsieh, would be in a better position to negotiate with Mainland China has never been effectively explained. The fact that Frank Hsieh does not accept the "one China, different interpretations" construct is counter-intuitive and unpersuasive. A stronger argument for Frank Hsieh's cross-Strait negotiating bona fides would be his track record of reaching out to the PRC during his tenure as Kaohsiung Mayor, and his more moderate rhetoric during his January 2005-January 2006 premiership.

WANG